

John Williams'  
**Shadow Government Statistics**  
*Analysis Behind and Beyond Government Economic Reporting*

**CORRECTED COMMENTARY NUMBER 565**  
**Fiscal Crisis—Dollar Debasement**

**October 18, 2013**

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**Debt-Ceiling Concept Remains in Place After February 7th**  
**Chances Are Nonexistent for Meaningful Government Action to**  
**Address Issues of Longer-Range U.S. Sovereign Solvency**  
**General Economic Outlook Has Deteriorated**  
**Watch the Dollar!**

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***PLEASE NOTE: This Corrected Commentary rectifies wrong information published on October 17th, which indicated the President could suspend the debt ceiling going forward. His ability to suspend the debt ceiling expires on February 7, 2014. Corrected text (underlined) follows. I apologize to my subscribers for this misreading of the legislation and the reporting error.***

*Separately, the ShadowStats Commentary schedule is being adjusted to reflect the reopening of the government and the initial publishing of delayed reporting. Accordingly, the next regular Commentary is scheduled for Tuesday, October 22nd (not the 21st as earlier planned), covering September employment and unemployment, existing home sales and other data that may become available in the interim. Also included will be the available detail on other rescheduled economic data, and—incorporating the debt-ceiling and government-reopening deal—an updated Summary Hyperinflation Outlook in the Hyperinflation Watch, along with details of the pending, full revision to the Hyperinflation Report.*

*Best wishes to all — John Williams*

## PROVERBIAL CONTINUED CAN-KICKING BEGINS TO ROIL GLOBAL MARKETS

Chances of the current federal government addressing the long-term sovereign-solvency issues of the United States are nonexistent, reflecting the agreement reached October 16th, to re-open the federal government into early-2014. In that negotiation process, the debt-ceiling leverage, which had been in place as an aid to those pushing for meaningful fiscal reform, also was suspended through February 7, 2014, but it will be reinstated thereafter. Details can be found in Section 1002 (a) “Default Protection Act of 2013,” on page 9 of H. R. 2775. A copy of the Act can be downloaded from this site: <http://thomas.loc.gov/cgi-bin/query/z?c113:H.R.2775>: .

***The Devil Is in the Details.*** While the debt ceiling remains in play, going forward, the process for handling it through February 7th has been changed. Instead of the Congress having to approve an increase in the debt ceiling, where withholding such approval had been used as negotiation leverage, for the present, the President simply announces that he is waiving the debt ceiling. If Congress objects, it has to pass legislation to reject the President’s waiver. The President can veto that legislation, where a veto override would require a two-thirds majority of both the House and the Senate. Neither the passage of an override of the waiver in both Houses, nor an override of a veto of such enacted legislation, is possible in the current political environment.

This process expires on February 7th, when a new debt ceiling will be put in place. The new concept introduced for getting around the debt ceiling, however, as noted by one subscriber, sets an extraordinarily dangerous precedent as to gutting the political leverage provided at present to those who seriously are looking to address the government’s extreme fiscal imbalances.

Separately, at such time as a new debt ceiling would constrain Treasury borrowings in February, consider that the Treasury, has just regained the re-funding needed to replenish its cushion to operate with extraordinary measures for a period of several months.

***Can Kicking.*** October 16th saw what has become almost a ceremonial kicking of the can down the road. There is no reason for the global financial markets to believe that the latest actions will be any less detrimental to U.S. financial stability or any less without meaning than the multiple similar experiences of recent years. This time, though, there is a good chance that the “What, Me Worry?” crowd in Washington finally has kicked the can off a cliff [no offense intended here for Alfred E. Neuman].

***Market Reactions.*** As we go to press early-afternoon (October 17th) New York time, initial reaction has been for dollar selling and gold buying. Despite whatever games the President’s Working Group on the Markets is playing, and beyond initial market volatilities, those general trends should accelerate, as the rest of the world weighs in on the ever-expanding U.S. fiscal debacle and on the intensifying dysfunctional nature of the United States government. Having run out of patience, global markets increasingly fear deteriorating U.S. sovereign solvency prospects and rapidly increasing odds of heavy U.S. dollar debasement.

Further considerations of the current circumstance, including global-market response, will be addressed in the upcoming *Commentary No. 566*, on October 22nd.

**The Economy Continues to Falter: Production Reporting Delayed.** The Federal Reserve's industrial production report for September is not covered today, as had been scheduled, because its release was delayed in tandem with underlying economic releases of the federal government, on which the production report is dependent.

***Rescheduled Economic Reporting for September and October.*** It is difficult for the markets to assess current domestic economic trends, when the first traditional economic release for September is the usually not-meaningful existing home sales number, to be published in the fourth week of October. Such does not prevent the markets, however, from hyperventilating over truly meaningless weekly data, such as the jobless claims numbers. Those data get buffeted regularly by the inability of the Labor Department to adjust weekly numbers meaningfully for seasonal factors (thrown off by holidays) and by the lack of timely reporting from the individual states. The latter circumstance has been a particularly serious problem recently for California. Separately, the relationship between claims and economic activity are not following traditional, historical patterns in this most severe and unusual of economic downturns.

With the government now reopening, releases for September will be rescheduled and most October reporting will be delayed. Details will be published in the [schedule](#), as they become available, and ShadowStats *Commentaries* will be rescheduled or schedule to cover the detail.

***Economic Outlook Has Deteriorated Due to Government-Shutdown Impact.*** The underlying fundamentals tied to consumer liquidity remain severely impaired, structurally, with the effect that there is no chance that the economy rebounded in September or October. Separately, the impact of the government shutdown on the economy appears to have been broadly negative, as discussed in [Commentary No. 564](#). While furloughed government workers will be paid as if they had worked throughout the shutdown, that will not be the case for many small businesses slammed by the shutdown, as well as for the employees of some federal contractors who were laid off. Impact of same should be evident in October's economic reporting, including industrial production, retail sales, new orders for durable goods and labor conditions.

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## HYPERINFLATION WATCH

**Hyperinflation Outlook—Summary.** The summary *Hyperinflation Outlook* will be revised in *Commentary No. 566*, pending publication on October 21st. The existing summary remains as published in [Commentary No. 564](#).

## WEEK AHEAD

**Weaker-Economic and Stronger-Inflation Reporting Likely in the Months Ahead.** During the shutdown of the Federal Government, federal statistical agencies (including the Bureau of Labor Statistics, the Census Bureau and the Bureau of Economic Analysis) suspended issuance of regular economic releases. While that generally did not apply to releases from the privately-owned Federal Reserve Board (FRB), or from other non-federal government entities, it did postpone the release of September 2013 industrial production, which was reliant on certain related reporting in the general releases from the government.

See the [schedule](#) for the latest detail, including the rescheduling of the delayed economic reports, as new publication dates are released. *[Other than for the new detail of next week's pending releases, the Week Ahead section is unchanged from Commentary No. 564 of October 11th.]*

Despite continuing downside adjustments to consensus expectations on the domestic economy, the markets still are overly optimistic. That circumstance, and underlying fundamentals that are suggestive of deteriorating business activity, mean that weaker-than-consensus economic reporting should remain the general trend. Inflation likely will be higher than market expectations.

In terms of monthly inflation reporting, energy-inflation-related seasonal-adjustment factors are on the plus-side through the end of the year. That, combined with likely stable or higher oil and gasoline prices, means stronger-than-expected headline CPI and PPI are a good bet for at least the next four months, and beyond. Upside pressure on oil-related prices should reflect intensifying impact from a weakening U.S. dollar in the currency markets, and from ongoing political instabilities in the Middle East. The dollar faces pummeling from continuing QE3, and the soon-to-resurface fiscal-crisis/debt-ceiling debacle (see opening comments and the *Hyperinflation Outlook* section). Particularly in tandem with the likely weakened dollar, inflation reporting in the year ahead generally should reflect much higher-than-expected inflation (see also [No. 527: Special Commentary](#)).

***A Note on Reporting Quality Issues and Systemic Reporting Biases.*** Significant reporting-quality problems remain with most major economic series. Headline reporting issues are tied largely to systemic distortions of seasonal adjustments. The data instabilities were induced by the still-ongoing economic turmoil of the last six-to-seven years, which has been without precedent in the post-World War II era of modern economic reporting. These impaired reporting methodologies provide particularly unstable headline economic results, where concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment and unemployment data), and they have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series.

**Employment/Unemployment (September 2013).** The release of September 2013 employment and unemployment has been rescheduled to Tuesday, October 22nd, as a result of the now-ended suspension of government operations. Detail (and forecasts) on the outlook for September and October labor conditions were covered in [Commentary No. 564](#). Generally, the September numbers should be disappointingly weak versus market expectations.

**Existing-Home Sales (September 2013).** September 2013 existing-home sales are scheduled for release on Monday, October 21st by the National Association of Realtors. As is the usual circumstance for this highly volatile and unstable series, a slight upturn in an entrenched pattern of stagnation likely has continued, with the report of monthly change in existing-home sales activity not likely to be meaningful, in either direction, particularly in the context of the prior-month's revision. This series increasingly should continue to show a relationship with the weakening trend in single-unit housing starts, as reported and graphed in its most-recent version of August 2013 in [Commentary No. 558](#).

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